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EUR/NB (MMCDOWELL), DEPARTMENT OF COMMERCE (LMARKOWITZ),
STATE PASS TO USTR, DEPARTMENT OF ENERGY (TSARKUS, JGIOVE),
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Classified By: DCM Kevin M. Johnson, reasons 1.4 (b) and (d)

¶1. (C) Summary. In a recent review of energy issues facing Norway, the third largest exporter of gas and fifth largest exporter of oil, Petroleum Ministry officials discussed:
--anti-competition concerns raised by the recent merger of Norwegian state-owned oil companies Statoil and Norsk Hydro;
--the newly-formed company's selection as a stakeholder in the Shtokman field project and what this might mean for Norway's relations with Russia;
--StatoilHydro's interests in Iran;
--Norway's 20th licensing round and what is likely to open when;
--Norway's upcoming shipment of LNG to the U.S.; and
--the GON focus on alternative energy, Norway's Mongstad carbon sequestration project and a possible domestic energy crisis stemming from environmental issues.
These issues draw attention to the trouble Norway is having as it searches for its place in the energy world. End Summary.

Anti-competition, or a "Bright Future"?

¶2. (C) Director Generals Odd Sverre Haraldsen and Ole Anders Lindseth strongly disagreed that the recent merger between the Norwegian state-owned oil and gas giants Statoil and Norsk Hydro would translate into a market monopoly for the new entity, StatoilHydro. The merged company, of which the GON holds a 62.5 percent ownership interest, has an 80 percent market share of Norwegian Continental Shelf (NCS) operatorships. Lindseth argued that the advent of more interested companies seeking to explore NCS opportunities, particularly small-and mid-sized businesses, translated into greater competition for StatoilHydro. He noted that Norwegian law included a dilution principle so licensees vote on each proposal, and thus even though StatoilHydro held a majority share interest, the company would still need to follow "the will of the majority" as to how it ran its awarded operatorships. In such instances, he concluded that size was "not decisive."

¶3. (C) Lindseth believed that corporate size would be neither a negative nor positive factor, and that the capability of a company and ability to effectively handle the

many logistical demands confronted by license holders would be the key elements judged by Petroleum authorities when awarding future licenses. He proposed that companies vying for NCS licenses would actually be facing one less competitor, given that StatoilHydro would not be receiving the same number of operatorships and participating shares as the two member companies prior to the merger. Lindseth emphasized that there would be "one less competitor" for rival businesses. (Note: This falls in line with our prior discussions with StatoilHydro executives, who believed that the number of future operatorships awarded to the merged entity would drop, given GON anti-competition concerns). The Petroleum officials stressed that anti-competition concerns were discussed by the Norwegian government prior to the merger, which involved a White Paper and continued Parliamentarian debate. Both Haraldsen and Lindseth also pledged that StatoilHydro's market position would be closely followed. Dismissing all anti-competition concerns, the officials noted that the future is bright for US companies, as Norwegian NCS exploration thrives on competition.

¶4. (C) We also raised anti-competition concerns stemming from the recent 30 percent GON buy-in of Aker Holding AS, which holds a 40 percent ownership interest in AkerKvaerner, the largest equipment supplier to Norway's oil and gas industry. The 800 million USD investment, slated for Parliamentary approval by the end of 2007, was publicly promoted by the government's call to ensure national ownership in key businesses. (Note: Widespread rumors further confirmed by Oslo Stock Exchange CEO Landsnes, has suggested the move was motivated in some part as a way to forestall foreign, and particularly Russian, investment into AkerKvaerner. The company's technological expertise in deep sea, High North exploration would prove valuable in developing Russia's Arctic energy potential). We brought up concerns that, from an outsider's perspective, the GON's ownership in the largest oil and gas company, and the largest industry supplier, was troubling in terms of controlling long-term contracts and market access. The officials stated that US companies should not be concerned of blocked market access.

¶5. (C) Lindseth went to great lengths explaining that Norwegian civil servants could not sit on the board of a government-owned Norwegian company, which evidenced the GON's commitment to ensure that "obvious Chinese walls" were constructed and prevented direct government influence on GON-owned companies. Despite that statement, we pointed out a recent letter from US investment firm Fidelity Investments concerning the removal of Norsk Hydro Chairman Jan Reinas surrounding an options scandal. The controversy involved the GON's instruction of Norsk Hydro to end its stock option program which the Hydro Chair felt the company was legally obligated to fulfill. Fidelity, a major Norsk Hydro shareholder, wrote the letter to Norwegian Trade Minister Andersen, critical of the government's pressure on Reinas. Essentially, the company expressed concern that the GON failed to seek a change in the options policy through the proper corporate governance structures (such as calling an extraordinary shareholders meeting).

StatoilHydro in Shtokman and Relations with the Russians

¶6. (C) Conversations turned to StatoilHydro's recent success in securing a 24 percent interest in the Shtokman Development Company, which is handling Shtokman field's first development phase. (Note: the field is the largest known offshore gas field in the world, situated in the Russian sector of the Barents Sea. Estimates approximately 3.7 trillion cubic meters of natural gas). StatoilHydro's partners will be Gazprom and Total, holding 51 percent and 25 percent shares, respectively. The first phase is expected to initially produce approximately 23 bcm of natural gas annually. Development costs for the first phase range widely, from 20-30 billion dollars. Phase one would develop approximately 20 percent of all Shtokman field reserves.

¶7. (C) Prior to the announcement, Post has been closely following the contest for Shtokman. Aside from ConocoPhillips, our discussions with local US oil companies confirmed that American companies have not been actively involved in the race for Shtokman involvement. Chevron expressed initial interest, and withdrew after Gazprom first decided that it would manage the project without foreign partners during first Shtokman phase. A local ConocoPhillips executive previously informed us that the Shtokman deal was not "financially interesting," but that the company pursued the matter largely to cement their extensive 14 year relationship in Russia, as demonstrated by its long-standing Lukoil relationship. Additionally, ConocoPhillips viewed the phase one deal as an entree into future, more lucrative Shtokman phases, involving equity shares, management control and long-term deals with bigger fields. The local executive believed that the company's interest evidenced its good-faith efforts with the Russians. Holding to the proposition that the deal itself was financially sour, following the StatoilHydro selection the executive wryly noted that over the long haul, "we'll see who the real winner is."

¶8. (C) Lindseth remarked that StatoilHydro likely was chosen for Shtokman because of its significant expertise in dealing with extreme Arctic conditions and challenging subsea production.

¶9. (C) Immediately following the announcement, a StatoilHydro executive informed Econ Officer that although extremely pleased with the award, the company had a "hell of a job" to do over the next two years, referring to short term project challenges surrounding the project's magnitude.

¶10. (C) Discussion moved to Norwegian relations with Russia, particularly involving the potentially resource-rich "disputed zone." The zone, approximately 155,000 square kilometers in size and located in the Barents, has been a point of contention between both countries for over 30 years.

¶11. (C) Lindseth said that negotiations were moving forward. He described how discussion of straddling fields was a new concept for Russia, but not for Norway (with a history of dealing with the UK and Denmark). Lindseth, who noted that there would be new meetings with the Russians shortly, believed that the Shtokman agreement would possibly lead to a breakthrough. However, he was quick to point out that there was no "direct link" between Shtokman and the disputed zone's resolution. When faced with the fact that disputed zone negotiations had continued over 30 years, he shrugged and noted "Maybe next year," stating that "time is less important than results."

Statoil in Anaran: Business as Usual?

¶12. (C) Petroleum Ministry officials did not want to discuss recent press reports that StatoilHydro is continuing its development of Iran's Anaran field (see Reftel a), noting that the U.S. position (and that of the merged company) were well known to both sides.

The 20th Licensing Round: Prospects?

¶13. (C) On the 20th licensing round of NCS development, Lindseth delivered mixed messages. Norway announced on October 26 that companies were invited to nominate blocks which they believe should be included in the round. The GON will accept proposed license area suggestions (including, with limitations, the areas in the North, Barents and Norwegian Sea) submitted by January 15, 2008. Although the award of new production licenses is slated for the spring of 2009, Lindseth agreed that this was a "moving target," and that the actual license award date would likely be later.

(Note: the 20th round has already been postponed for a year. Local representatives of US oil companies, while seeking certainty from the GON that the awards date will actually be firmly set, have conceded that as awarded licenses from the last round have not been fully exploited, given the lack of oil rigs and extraction material, the GON had a strong position to demand an extension of the next round's award date.)

¶14. (C) Referring to the Soria Moria Declaration, which outlined the goals of the GON coalition, Haraldsen and Lindseth pointed out that the Lofoten area would definitely not be open for licensing. Environmental concerns have closed access to this presumed gas-rich area, which has a long-standing fishing tradition. Local representatives of US oil companies have continuously urged the GON to open up these promising fields.

Energy, energy everywhere...

¶15. (C) With enhanced recovery developments, evidenced in the massive Ekofisk field, the extent of Norwegian resources is growing. Ekofisk was slated to close in 1997. Given new extraction and recovery technologies and methods, the field is now slated to be closed in 2035. A new resource report indicates that approximately one/third of NCS energy has yet to be discovered.

¶16. (C) The Norwegians noted the importance of the upcoming first shipment of liquefied natural gas to the U.S. from the Norwegian Snohvit project. The GON is interested in a significant opening ceremony, and will contact Post with their plans. (Note: over one-half of the Snohvit project's LNG will be destined for Cove Point, Maryland). A June 2009 official opening date was discussed, with the Petroleum officials pledging to remain in close contact with the USG concerning a formal, high-level bilateral ceremony.

Renewable Energy, CCS and Who Turned Off the Lights?

¶17. (C) The Norwegian officials stressed the Norwegian commitment to developing alternative energy, and carbon

capture and sequestration (CCS). Haraldsen described that the Norwegian alternative energy focus would focus on wind power, most notably offshore windmills situated in deep water. The potential from such projects are very high, despite the current development cost challenges.

¶18. (C) Haraldsen then discussed the Mongstad CCS project, which would involve massive carbon sequestration from gas. Haraldsen acknowledged Ambassador Whitney's recent meeting with then-Petroleum Minister Roger Enoksen to support the FutureGen project, a CCS initiative involving coal sequestration, and pledged a forthcoming answer from the Norwegian government. Haraldsen noted that the carbon sequestration posed serious technological challenges. The Norwegians discovered from their Sleipner project (where CO_2 was extracted from natural gas itself) that carbon dioxide's high corrosive nature played a major challenge. Haraldsen also recognized Norway and U.S. cooperation on the Carbon Sequestration Leadership Forum. He also pointed out the need to jointly work to get the public behind CCS, citing the "unfounded" fears that CO_2 would leak out of sealed reservoirs. Haraldsen reiterated that Norway's goal was to commercialize, and industrialize, the CCS process.

¶19. (C) Subsequent to the meeting, it was reported that Norway (a member of the European Economic Area) has not yet won the requisite EU clearance for the Mongstad project, given that the GON's planned state sponsorship of the environmental measure is believed to breach EU subsidy regulations. Petroleum Minister Haga noted to press that the move may delay Mongstad's development.

¶20. (C) The GON commitment to CCS and alternative energy is

causing the government to face a potentially serious domestic energy challenge. Press reports indicate that Petroleum Minister Haga may oppose the operation of mobile gas-fired power stations at Nyhamna and Tjeldbergodden (central Norway), even though the projects are already in the development phase. The projects were supposed to be temporary fixes to address large industrial consumption of energy, most notably involving the massive Ormen Lange gas project (which will supply a substantial amount of U.K. gas needs). Norwegian power companies, often owned by municipalities, have sold energy to industrial clients at the expense of consumer needs. Minister Haga is concerned that the temporary mobile stations do not utilize clean technologies, and present only a short-term solution. There is widespread concern that shutting down the mobile stations will lead to power blackouts and energy rationing.

The Uncertain Road Ahead: Russian Adventures and Energy Shortages?
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¶21. (C) Comment. Norway, the third largest global exporter of gas, and fifth largest oil exporter, is facing great challenges as it searches for its place in the world. In practice, the highly transparent Norway has fairly dealt with the conundrum of encouraging NCS competition, despite the state ownership of Norsk Hydro and Statoil. Nevertheless, with the mega merger and creation of StatoilHydro, and the GON buy-in of energy supplier giant AkerKvaerner, careful scrutiny will be needed to see if the tradition of open, fair competition continues. The impression that the Norwegian government now sits on all sides of the energy table is a difficult image to ignore. StatoilHydro's success with Shtokman, and its impact on Russian relations (including a possible resolution of the disputed zone), is also of great interest. Lindseth revealed much stating that Norway must focus on a commercial relationship with Russia, and that aggressive Russian tendencies to break and restructure energy contracts (as with the Sakhalin development) were of a thing in the past, and occurred when Russia had a "lousy" deal (as opposed to Shtokman). Even if the Shtokman deal is more fair to Russia than other past energy opportunities, an overt GON reliance on present Russian contractual guarantees is unwise, if not naive.

¶22. (C) Finally, Norway must get its own house in order concerning CCS and domestic energy needs. Possible EU rejection of Norway's marquee Mongstad CCS project, on top of the very real possibility that the energy-rich country could suffer blackouts due to unsound policy, will pose great challenges ahead. The overall impact of these commercial deals on Norway's foreign policy is also a question of concern.
JOHNSON